

Message Text

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INFO OCT-01 EUR-04 ISO-00 /015 R

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DRAFTED BY: S/S-O:DHICKEY

APPROVED BY: S/S-O:RKUCHEL

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TO AMEMBASSY LONDON IMMEDIATE

C O N F I D E N T I A L STATE 161367

FOLLOWING REPEAT BRASILIA 5513 SENT SECSTATE INFO RIO DE
JANEIRO SAO PAULO DATED JULY 24.

QUOTE

C O N F I D E N T I A L BRASILIA 5513

DEPARTMENT PASS TREASURY (PETER SUCHMAN) AND TO SECRETARY
SIMON'S PARTY FOR THE ATTENTION OF SECRETARY SIMON

E.O. 11652: GDS

TAGS: ETRD, EFIN, BR

SUBJECT: COUNTERVAILING DUTY ON SHOES

REF: (A) BRASILIA 5391 (B) STATE 157983 (C) BRASILIA 5426

1. FINANCE MINISTER SIMONSEN CALLED ME IN THIS MORNING
(JULY 24) TO GIVE ME THE RESULTS OF THE STUDY PREPARED
BY THE FINANCE MINISTRY USING AS SAMPLE THE TWELVE SHOE FIRMS
WHICH WE HELPED CHOOSE TO DETERMINE THE LEVEL OF AVAILABLE
EXPORT INCENTIVES WHICH COULD BE SUBJECT TO COUNTERVAILING
DUTIES. I WAS ACCOMPANIED ON THE CALL BY THE FINANCIAL
ATTACHE. THE MINISTER STATED THAT, ALTHOUGH THE SAME
INFORMATION WOULD BE SUBMITTED TO TREASURY THROUGH THE
BRAZILIAN EMBASSY IN WASHINGTON, HE WANTED TO GIVE US A
COPY DIRECTLY.

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2. IN HANDING OVER THE DATA, THE MINISTER STATED THAT HE WANTED SECRETARY SIMON TO KNOW THAT THE BRAZILIANS APPROACHED THIS EXERCISE VERY SERIOUSLY, THAT THE STUDY HAD BEEN CAREFULLY PREPARED IN ACCORDANCE WITH THE METHODOLOGY AGREED BY THE STAFFS OF THE U.S. TREASURY AND THE BRAZILIAN MINISTRY OF FINANCE, AND THAT IT WAS HIS HOPE THAT IF A COUNTERVAILING DUTY WERE TO BE IMPOSED IT WOULD REFLECT THE RESULTS OF THE STUDY. (FYI: WE HAD PREVIOUSLY HEARD FROM THE MINISTER'S IMMEDIATE STAFF THAT THE REASON FOR SIMONSEN'S CONCERN ABOUT WHETHER A DETERMINATION OF COUNTERVAILING DUTY WOULD IN FACT BE BASED ON THE RESULTS OF THIS EXERCISE STEMMED FROM INFORMATION REPORTEDLY RECEIVED BY THE FOREIGN MINISTRY FROM THE BRAZILIAN EMBASSY IN WASHINGTON ALLEGING THAT TREASURY HAD ALREADY MADE A DECISION TO IMPOSE A 12 PERCENT DUTY AND THAT THE INVESTIGATION WAS BEING UNDERTAKEN FOR PUBLIC RELATIONS PURPOSES. END FYI)

3. CONFIRMING WHAT SIMONSEN TOLD US LAST WEEK (REFTEL A), THE RESULTS OF THE SAMPLE INDICATE THAT THE COUNTERVAILABLE PORTION OF THE EXPORT INCENTIVES, ACCORDING TO THE AGREED METHODOLOGY, IS 5.25 PERCENT. THIS INCLUDES A TOTAL OF 3.99 PERCENT FOR THE IPI AND THE ICM, 1.03 PERCENT FOR THE INCOME TAX, AND 0.23 PERCENT FOR SUBSIDIZED LOANS. IN THIS CONNECTION, THE MINISTER REPEATED A POINT HE MADE AT OUR MEETING LAST WEEK: THAT FROM A MORAL POINT OF VIEW, THE U.S. HAS NO GOOD REASONS TO IMPOSE COUNTERVAILING DUTIES AGAINST THE INCOME TAX AND SUBSIDIZED LOAN INCENTIVES SINCE THESE TWO PROGRAMS ARE VERY SIMILAR TO OUR DISC AND EXIMBANK OPERATIONS, RESPECTIVELY.

4. I THANKED THE MINISTER FOR THE INFORMATION AND SAID THAT I WOULD FAITHFULLY REPORT THE MINISTER'S MESSAGE TO SECRETARY SIMON.

5. I THEN ASKED THE MINISTER TO CLARIFY THE COMMENT HE HAD MADE LAST WEEK TO THE EFFECT THAT THE FINANCE MINISTRY WOULD NOT EXERCISE THE OPTION AT ITS DISPOSAL TO WITHDRAW THE INCENTIVES IN QUESTION IN ORDER TO PREVENT THE IMPOSITION OF COUNTERVAILING DUTIES (SEE PARA 5, CONFIDENTIAL

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REFTEL A). IN LINE WITH THE RECENT EXCHANGE OF MESSAGES WITH WASHINGTON (REFTELS C AND D), I SPECIFICALLY WENT ON TO ASK THE MINISTER WHETHER THE GOB WAS INTERESTED IN TAKING THE QUOTE COLOMBIAN ROUTE UNQUOTE, I.E., WITHDRAWING THE QUOTE OFFENDING UNQUOTE PORTION OF THE EXPORT INCENTIVES PROMPTLY AND THUS AVOID THE IMPOSITION OF THE ADDITIONAL DUTY.

6. THE MINISTER REPLIED BY SAYING THAT, ALTHOUGH HE RECOGNIZED THE EXISTENCE OF THE ALTERNATIVE AND ALTHOUGH THE GOB INTENDED TO MODIFY THE GENERAL INCENTIVE REGIME OVER TIME, SUCH A MEASURE WOULD BE MUCH MORE DIFFICULT TO TAKE THAN JUST ACCEPTING A COUNTERVAILING DUTY ON THE ORDER OF 5 PERCENT. HE DESCRIBED THESE DIFFICULTIES FACING THE GOB AS FOLLOWS: (A) THERE WOULD BE ADVERSE DOMESTIC POLITICAL REPERCUSSIONS TO ANY ANNOUNCEMENT WITHDRAWING THE INCENTIVES FROM THE SHOE EXPORTERS; (ALTHOUGH HE DID NOT ELABORATE ON THIS, IT IS CLEAR TO US THAT HE FEARED THAT THE GOB WOULD BE CRITICIZED FOR HAVING QUOTE CAVED IN UNQUOTE TO THE US); AND (B) THAT SUCH ACTION WOULD BE ADMINISTRATIVELY COMPLEX SINCE THE GOB WOULD NOT WANT TO WITHDRAW THESE INCENTIVES FOR EXPORTS TO COUNTRIES OTHER THAN THE U.S. IN CONCLUSION, THE MINISTER ADDED, IT IS PREFERABLE TO ACCEPT A 5 PERCENT COUNTERVAILING DUTY (THUS, HE JOKINGLY SAID, SUBSIDIZING THE U.S. TREASURY) AND PUT THE ONUS ON THE U.S. TREASURY RATHER THAN HAVE THE ONUS FALL ON THE BRAZILIAN GOVERNMENT. IN THIS REGARD, THE MINISTER REPEATED THAT A 5 PERCENT DUTY WILL ONLY HAVE A QUOTE COSMETIC UNQUOTE IMPACT, IMPLYING THAT SHOES EXPORTS TO THE U.S. WILL NOT BE AFFECTED BY IT.

7. WE WILL SEND TO TREASURY BY POUCH THE MATERIAL RECEIVED FROM THE MINISTER.

8. COMMENT: SIMONSEN'S REPLY, WHICH WE BELIEVE TO BE A CONSIDERED ONE, EFFECTIVELY REMOVES THE POSSIBILITY OF THE GOB'S CHOOSING THE "COLOMBIAN PATH". THEREFORE, THE PROPOSALS IN REFTTEL C HAVE NOW BEEN OVERTAKEN.
CRIMMINS
UNQUOTE KISSINGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN RELATIONS, SHOES, COUNTERVAILING DUTIES, EXPORT SUBSIDIES, DIPLOMATIC DISCUSSIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 25 JUL 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: kelleyw0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE161367
Document Source: CORE
Document Unique ID: 00
Drafter: O:DHICKEY
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740201-0197
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740717/aaaaaopf.tel
Line Count: 146
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: (A) BRASILIA 5391 (B) STATE 157983 (, C) BRASILIA 5426
Review Action: RELEASED, APPROVED
Review Authority: kelleyw0
Review Comment: n/a
Review Content Flags:
Review Date: 24 JUL 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24-Jul-2001 by kellerpr>; APPROVED <26 FEB 2003 by kelleyw0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COUNTERVAILING DUTY ON SHOES
TAGS: ETRD, EFIN, BR, US
To: LONDON
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005